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COLLECTION

PROGRAMME AND BUDGETS, 1998-1999

Personnel and financial implications of the indicative budget reduction proposals*

Submitted by the Director-General

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* The present document has not been edited.

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Introduction

1. In the recent past, UNIDO has undergone a drastic staff reduction which has brought down staffing levels from approximately 1,350 in 1992 to 780 in 1996. The experience gained in implementing previous staff reduction programmes efficiently and effectively has been applied in the proposals presented in this document. In this context, the Director-General also appeals to Member States to accord highest priority to issues related to staff welfare and staff morale.

2. The proposed programme and budgets for 1998-1999 under each of the three indicative budget reduction levels (10, 20 and 30 per cent) have serious implications for the personnel of the Organization, as they include the abolition of a significant number of posts.

3. The implementation of certain other proposals contained in the budget will also have financial implications. For example, the transfer of posts from Headquarters to the field will involve travel and relocation costs for some Professional staff. It is expected that such costs can be absorbed under the budgetary allocations for 1998-1999, and no additional financial allocations will be sought from Member States.

4. The consequence of each of the budgetary proposals is that a number of staff will need to be separated from service with UNIDO, as there will be insufficient posts to maintain the current staffing establishment. There would, moreover, be little opportunity to implement staff reductions through normal attrition by way of retirement or resignation. This would, in any event, be inconsistent with the staff expertise requirements under the priorities established in the Business Plan.

5. The separation of staff has a substantial cost which, unlike in the previous staff reduction exercise, cannot be absorbed under existing budgets or within the financial resources currently available to the Organization. The present document discusses the personnel issues to be addressed under a staff separation programme, including the financial implications of such a programme. Information is provided on the costs of separating staff and on the costs related to the over-encumbency of posts at the beginning of the biennium. Proposals are made on budgetary and financial modalities to fund a staff separation programme.

6. The personnel and financial implications presented in the present document are extremely complex, in particular in respect of the modalities for funding a staff separation programme in the light of the three separate indicative budget reduction levels of 10, 20 and 30 per cent. In order to provide a clear and concise presentation of the issues, the paper is set out under the following chapters.

Chapter I. Personnel issues

7. This chapter describes the personnel issues, including information on the cost-effectiveness of a voluntary programme and on proposed incentives for a voluntary separation programme.

Chapter II. Cost of separations

8. This chapter presents the anticipated costs of separation under each of the indicative budget reduction scenarios of 10, 20 and 30 per cent.

Chapter III. Modalities for funding the staff separation programme

9. This chapter presents two alternative modalities for funding a separation indemnity reserve for consideration by Member States. The modalities discussed include supplementary budgets and transfer of unutilized balances combined with mandatory advances from Member States.

Chapter IV. Delayed implementation of budgetary reductions

10. This chapter suggests an alternative methodology for a phased implementation of the staff separation programme through the introduction of proposed budget reductions only as of the second year of the biennium.

I. PERSONNEL ISSUES—SEPARATION INDEMNITY

11. The magnitude of the staff separations resulting from the budgetary reductions requires special measures to be adopted by the Organization to facilitate an orderly and cost-effective staff separation programme. The programme must take account of the staff regulations and rules, as well as the effects that large-scale staff reductions have on the staff. UNIDO, as an employer within the United Nations system having already implemented two staff separation programmes, has an obligation towards its multicultural workforce to provide an appropriate framework within which staff reductions can be implemented. Based on the above considerations and in line with previous experience, the Director-General considers that a voluntary staff separation programme is the only viable means of reaching the required reduction in staffing levels within a minimum time-frame and should precede non-voluntary staff separation procedures. An essential

integral part of a voluntary staff separation programme would be that the Director-General reserves the right to deny applications for voluntary separation from staff members whose continued service is deemed necessary in the interests of the Organization.

12. As UNIDO has already undergone substantial staff reductions in recent years, a further staff reduction must be managed to ensure that the service of high performing staff members with the appropriate expertise is retained. This requires that the Director-General exercises his prerogative as chief administrative officer with respect to the extension and termination of staff appointments and that this prerogative is fully respected by Member States.

13. Although the Director-General will strive to keep a reasonable gender and geographical balance under both a voluntary and a forced staff reduction programme, there will be need for flexibility to secure the highest standards of efficiency, competence and integrity of the staff who are retained in service.

14. While this document basically discusses the financial aspects of a staff separation programme, there are other important elements to be considered for a smooth implementation. This includes aspects such as the establishment of outplacement and counseling services and the re-creation of an internal advisory body ensuring a fair and transparent process.

15. Member States should also take into account that the time factor plays a critical role in two ways: the time when required resources are made available to the Organization, and the time required for the actual implementation of staff reductions.

16. The proposed framework for staff separations does not compare favourably with separation packages approved by Member States in other specialized agencies and intergovernmental organizations, such as the World Bank. The proposed elements to be financed under a staff separation programme, therefore, constitute a minimum set of compensation modalities, incentives and services.

17. The cost elements of staff separations include:

(a) Termination indemnity, according to staff regulation 10.6(a), schedule IV, of the staff regulations and staff rule 110.07;

(b) In cases of agreed termination of permanent appointments, payment of termination indemnities increased by up to 50 per cent in accordance with staff regulation 10.6(b);

(c) Extension of this provision to the termination of fixed-term appointments, as was authorized by the General Conference for the staff reduction in 1995-1996 (GC.6/Dec.14);

(d) Salary and common staff costs incurred during the implementation period and periods of notice;

(e) The costs of an outplacement programme with a view to identifying employment opportunities for separating staff that constitutes an integral part of a staff separation programme;

(f) The costs associated with the administering of termination procedures, including appeals or complaints submitted by affected staff to the ILO Administrative Tribunal.

18. Where applicable, and at no additional cost to the Organization, utilization of the monetary value of (a), (b) and (c) above to finance payment towards pension fund and health insurance contributions during a period of leave without pay in order to protect acquired service credits in the pension and health insurance schemes or to finance a period of special leave with full pay or partial pay.

19. It is proposed in paragraph 17 (c) above that the financial arrangements relating to separation of staff holding fixed-term appointments include, as a special measure, additional termination indemnity payments up to 50 per cent. Given the provisions of staff regulation 10.6 (b), which allow increased termination indemnity payments of up to 50 per cent to holders of permanent appointments, the additional termination indemnity payment to holders of fixed-term appointments would again constitute an exceptional measure, requiring—as was the case at the sixth session of the General Conference—the approval of the General Conference, that would be essential given the magnitude of the staff separations required. Indeed, this element of the financial arrangements constitutes the only incentive for staff holding fixed-term appointments (63 per cent of the work force) to consider voluntary separation from service. Should the Organization not be in a position to offer this particular compensation element, a voluntary staff separation programme would effectively be applicable only to permanent staff members. This would reduce substantially the scope and impact of a voluntary staff separation programme and would result in the necessity to reach the required reduction in staffing levels through non-voluntary staff reductions.

20. The measures to be adopted should facilitate an orderly and cost-effective staff separation programme and

should be perceived by staff as fair and in line with conditions applicable in comparable organizations. The cost-effectiveness of a voluntary staff separation programme and the need to avoid non-voluntary staff separations to the extent possible is demonstrated by the following:

(a) The monetary value of an agreed termination, which includes the payment of an additional 50 per cent of termination indemnity for a Professional staff member with 10 years of service, irrespective of level and calculated on the basis of average within-grade steps for a staff member with dependants, amounts to 2.5 months of salary. For a General Service staff member, the monetary value ranges from 3.2 months of salary at grade G-2 to 3.5 months of salary at grade G-7;

(b) The staff regulations and rules, which constitute the labour law of the Organization, stipulate specific requirements and procedures to be followed before termination action is implemented. The relevant procedures require the review of the contractual status of individual staff members, competencies and performance on a comparative basis. Given the magnitude of staff separations required, such a review necessitates a corresponding time period during which the salaries of affected staff are payable and which, based on past experience, is in the order of at least six months, hence twice the estimated amount of an additional 50 per cent termination indemnity in cases of voluntary departure. In addition, the costs involved in terms of staff time to implement non-voluntary staff separations are substantial;

(c) Involuntary terminations, more often than not, lead to expensive and protracted litigation cases. Complaints are likely to originate from affected staff due to difficulties in identifying alternative employment opportunities in an economic environment of growing unemployment and due to losses in pension and social security benefits. Irrespective of the success of such complaints, the process of their legal review and consideration is extremely costly, as it absorbs staff time of the relevant services within the Secretariat which would otherwise be provided to other priority activities. This is a particularly unwarranted consequence given the fact that the Organization operates on reduced staff resources following the 1995-1996 budgetary and staff reduction of 25 per cent. Staff time spent by serving staff on internal committees, such as the Joint Appeals Board, is an additional cost element in terms of salary costs. While it is difficult to quantify this in financial terms, the fact remains that staff are diverted from their normal duties to ensure that the due process is observed in the implementation of non-voluntary separations.

21. Notwithstanding the limited incentives given to attract staff to accept voluntary separation, such incentives will ultimately prove to be less expensive to the Organization than the cost of protracted non-voluntary separations. It is reiterated that staff reductions through natural attrition would not be an appropriate solution, as mentioned in paragraph 4 above.

II. COST OF SEPARATIONS

Average cost of separations

22. The average cost of the separations under the 1996 staff reduction exercise was $100,000 per separated staff member, comprising an average $150,000 for Professional and $82,000 for General Service staff. However, the averages did not include salary costs incurred during the implementation period which, due to the circumstances prevailing at the time and the limited number of non-voluntary separations (12 per cent), could be absorbed from within the budgetary resources included in the 1996-1997 budget. In view of the reduced resource availability for 1998-1999, it will not be possible to absorb such additional costs within the 1998-1999 budget; and separate provision must be made for the full cost of separations, including salary costs during the implementation period, when the Organization will have more staff than posts budgeted. Based on the optimistic assumption that two thirds of the staff reductions could be effected within three months and the remaining one third within six months, the average cost of separation for Professional staff is estimated at $184,000 and General Service staff at $100,000. The average also includes provision for other separation-related costs as described in paragraph 17 (e) and (f). It is stressed that this average cost would increase in proportion with the time required for implementation.

Separation costs under the budget scenarios

23. The programme and budgets for 1998-1999 foresee the abolition of Professional and General Service posts for the 1998-1999 biennium under each of the three budget reduction scenarios. In view of the fact that some posts to be abolished are currently vacant, the number of staff separating from service with UNIDO will be fewer than the number of posts to be abolished.

24. The number of posts to be abolished and staff to be separated, together with the financial implications under each of the budget reduction scenarios, are presented below:

(a) 10 per cent budget reduction scenario

	Professional	General Service	Total
Total posts to be abolished	22	68	90
Vacant posts to be abolished	5	9	14
Encumbered posts to be abolished/staff to be separated	17	59	76
Average cost of separations	$184,000	$100,000	$118,400
Total cost of separations	$3.1 million	$5.9 million	$9.0 million

(b) 20 per cent budget reduction scenario

	Professional	General Service	Total
Total posts to be abolished	60	96	156
Vacant posts to be abolished	14	16	30
Encumbered posts to be abolished/staff to be separated	46	80	126
Average cost of separations	$184,000	$100,000	$131,800
Total cost of separations	$8.5 million	$8.0 million	$16.5 million

(c) 30 per cent budget reduction scenario

	Professional	General Service	Total
Total posts to be abolished	97	135	232
Vacant posts to be abolished	14	16	30
Encumbered posts to be abolished/staff to be separated	83	119	202
Average cost of separations	$184,000	$93,000 a/	$130,200
Total cost of separations	$15.3 million	$11.0 million	$26.3 million

a/ Lower average due to inclusion of 21 General Service field posts.

25. While the average cost for non-voluntary separations may initially be lower than the above estimates, the additional costs in terms of transition costs (staff costs without budgetary allocation), due process costs of implementing a non-voluntary separation, and possible *post facto* litigation costs will result in substantially higher real costs to the Organization.

III. MODALITIES FOR FUNDING A STAFF SEPARATION PROGRAMME

26. The financial estimates of a staff separation programme as outlined in the above paragraphs will require the replenishment of the separation indemnity reserve, which has a current level of $2,000,000 to the following levels:

(a)	Under the 10 per cent budget reduction scenario	$ 9.0 million
(b)	Under the 20 per cent budget reduction scenario	$16.5 million
(c)	Under the 30 per cent budget reduction scenario	$26.3 million

27. Under all three scenarios, there are two important considerations to be addressed:

(a) The requirement for Member States to provide budgetary approval for an allocation of funds for the restoration of the separation indemnity reserve;

(b) The modalities for the financing of the reserve with cash allocations.

28. In this context, the Secretariat draws attention to the report of the External Auditor on the interim accounts of UNIDO for the first year of the financial period 1996-1997 (IDB.18/3-PBC.13/3) which, in paragraph 21, states:

> "We stress that in case another staff reduction exercise becomes necessary, it may not presently be possible to fund a reserve for separation benefits, as the surplus for the 1994-1995 biennium is not backed up by cash resources. Therefore, Member States would be obliged to provide additional funds for that purpose."

29. The Organization does not have cash resources to implement the staff reduction programme. Such cash resources could come from the payment of outstanding assessed contributions by Member States. Unless cash resources are available to implement the staff separation programme, the process of reducing staffing to the approved budgeted levels could be delayed and the Organization would face a severe cash crisis in the first quarter of 1998. The extent of the cash shortfalls during 1998 under each of the scenarios is demonstrated in the graphs under annex I to the present document.

Alternative 1—Supplementary assessment on Member States

30. Under this alternative, the budgetary approval for the replenishment of the separation indemnity reserve would be through a supplementary budget for the 1998-1999 biennium. The financing of this supplementary budget would be through an assessment on Member States in accordance with the scale of assessments.

31. This alternative has the advantage of simplicity. The timely payment by Member States under this alternative would be essential to ensure that cash is available early in 1998 to implement the staff separation programme in as timely a manner as possible.

Alternative 2—Transfer of unutilized balances

32. The second alternative is more complex than the first alternative, but has the advantage of securing the budgetary resources without the need for a supplementary budget. This alternative is discussed below in terms of budgetary approval and financing of the separation indemnity reserve.

(a) Budgetary approval

33. Under alternative 2, the Secretariat recommends that the separation indemnity reserve be funded by transferring part of the unutilized balance of appropriation from the biennium 1994-1995 to the separation indemnity reserve. The budgetary surpluses arising from the unutilized balances of appropriations for the biennium 1994-1995 of $31,500,000 are shown in document IDB.18/4-PBC.13/4 (note 2(l)(ii)). Subject to the approval of the General Conference, part of this surplus could be transferred to the separation indemnity reserve to provide the budgetary authority to fund a staff separation programme. Under this alternative, Member States would be requested to approve the suspension of financial regulations 4.2(b) and 4.2(c) for part of the unutilized balances and to approve a transfer to the separation indemnity reserve account. The amount to be transferred will depend on the budget reduction level agreed by Member States.

34. Notwithstanding the possible approval by Member States of the funding modalities proposed in this chapter,

the Organization would still not have the required financial resources to finance the separation indemnity reserve. In other words, although the budgetary authority may be approved, cash is required to permit payments for staff separation indemnities to be made from the separation indemnity reserve. The possible source of the required cash is discussed in the following paragraphs.

(b) The financing of the separation indemnity reserve

35. As stated above, the implementation of the staff reduction programme requires cash. The most obvious source of the cash would be from the payment by Member States of outstanding assessed contributions. For instance, payment by the United States of America of only one half of its outstanding contribution alone would provide sufficient cash to finance a staff separation programme even under a 30 per cent budget reduction. There are also significant levels of outstanding contributions from other Member States. However, unless the Organization is successful in recovering outstanding assessed contributions before December 1997 at levels sufficient to finance the separation indemnity reserve, an alternative course of financing must be considered.

36. It would appear that the only feasible proposition, in the absence of cash from late payment of assessed contributions, is for Member States to make financial advances by way of loans to the Organization, which would be repaid as and when such assessed contributions are paid. Such advances, which could be based on the scale of assessments, would be presented in the financial statements as liabilities to Member States and would not be considered as permanent contributions to the Organization.

37. The level of advance required to be made by Member States will depend on the level of the separation indemnity reserve, which is in turn dependent on the budgetary reductions decided upon by Member States.

IV. DELAYED IMPLEMENTATION OF BUDGETARY REDUCTIONS

38. An alternative methodology to achieve the staff reduction levels demanded by the budget reductions is discussed under this chapter.

39. The process of implementation of the staff reduction programme will cause severe disruption to the work of the Organization during a period in which the implementation of the programme of work and the Business Plan should be of paramount importance. The alternative methodology would call for the staff reduction programme to be phased throughout the first year of the biennium. This would have the advantage of a longer period of transition to lower staffing levels and consequently less disruption to the work of the Organization.

40. This methodology would not in itself reduce the overall cost of staff separation. However, if applied in combination with alternative 2 described in paragraphs 32 to 37, it may eliminate the need for additional mandatory assessments. This is because of the possibility of an improvement in the payment of late assessed contributions during 1998, which could finance the staff separation programme.

41. Delayed implementation of budgetary reductions would provide for the abolition of posts to take place in the second year of the 1998-1999 biennium.

V. SUMMARY

42. The personnel and financial issues can be summarized as follows:

(a) The number of staff to be separated is dependent on the level of budget reductions decided upon by Member States;

(b) The Organization should introduce a cost-efficient programme, including incentives to staff, to ensure the largest possible number of voluntary separations;

(c) The Organization does not presently have the financial resources to implement a staff separation programme;

(d) The separation indemnity reserve could be funded through (i) a supplementary budget assessment on Member States or (ii) the transfer of unutilized balances from the 1994-1995 biennium;

(e) Under (d) (ii) above, in the absence of a significant payment of late assessed contributions, the financing of the separation indemnity reserve would be through mandatory advances by Member States;

(f) Member States may consider a delayed implementation of budgetary reduction;

(g) The time factor of implementation is essential to reduce the likelihood of a financial crisis in the next biennium.

VI. ACTION REQUIRED OF THE COMMITTEE

43. For the reasons outlined in the present document, it is suggested that the Committee recommend to the Board the adoption of the following draft decision:

Alternative 1

"The Industrial Development Board:

"(a) Recommends to the General Conference the approval of a supplementary budget for the biennium 1998-1999 in the amount of [amount to be determined] for the purpose of funding the separation indemnity reserve;

"(b) Also recommends to the General Conference the approval of the financial arrangement outlined in document IDB.18/15/5-PBC.13/14/5 relating to voluntary separation of staff, which may include the special arrangements to holders of fixed-term appointments to be financed from the separation indemnity reserve;

"(c) Requests the Director-General to implement a staff separation programme in accordance with the staff rules and regulations to reduce the staffing establishment to the levels approved in the 1998-1999 programme and budgets."

Alternative 2

"The Industrial Development Board:

"(a) Recommends to the General Conference the suspension of financial regulations 4.2(b) and 4.2(c) with respect to the unutilized balance of appropriations for the 1994-1995 biennium, as reported in document IDB.18/4-PBC.13/4, in the amount of [amount to be determined] for the purpose of funding the separation indemnity reserve;

"(b) Also recommends to the General Conference the approval of a mandatory assessment on Member States of [amount to be determined] as a temporary advance to the Organization, to be repaid as late payments of assessed contributions for prior bienniums are received;

"(c) Also recommends to the General Conference the approval of the financial arrangement outlined in document IDB.18/15/5-PBC.13/14/5 relating to voluntary separation of staff, which may include the special arrangements to holders of fixed-term appointments to be financed from the separation indemnity reserve;

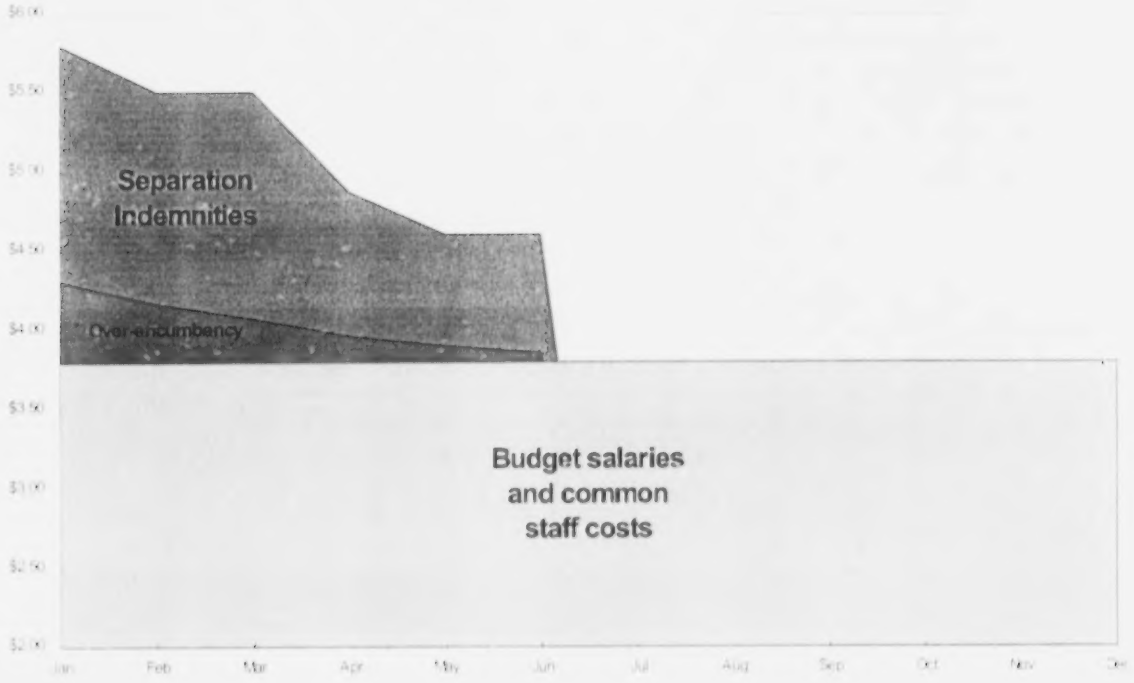
"(d) Requests the Director-General to implement a staff separation programme in accordance with the staff rules and regulations to reduce the staffing establishment to the levels approved in the 1998-1999 programme and budgets."

Annex

Staff Separation Programme

Excess of expenditure over budget - 1998

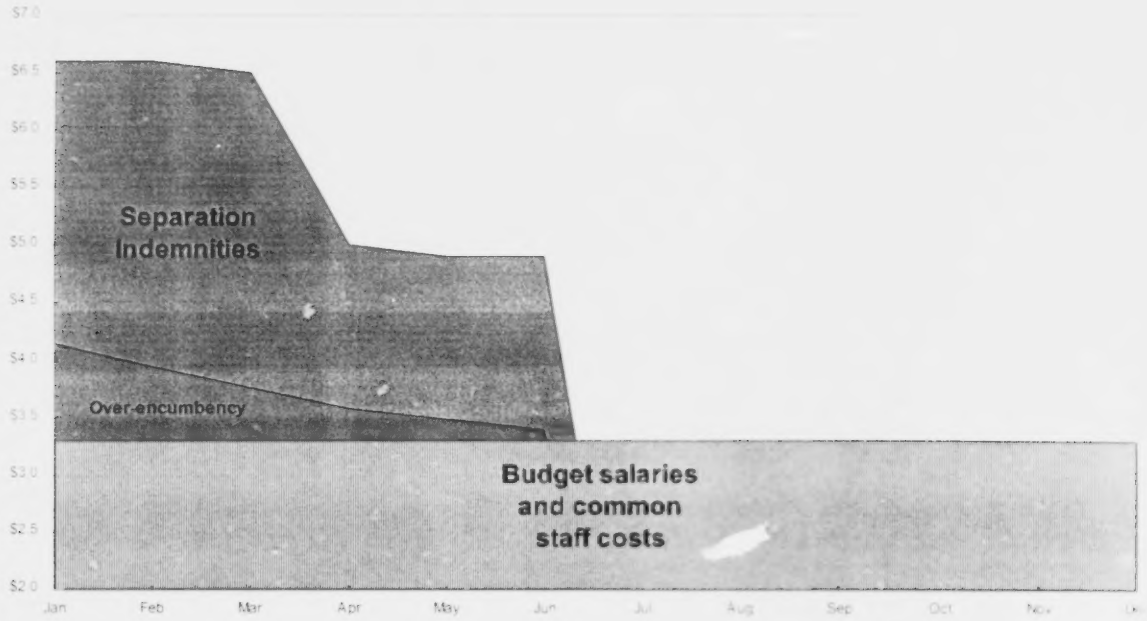
Figure 1. 10% budget reduction



Staff Separation Programme

Excess of expenditure over budget - 1998

Figure 2. 20% budget reduction



Staff Separation Programme

Excess of cash requirements over budget - 1998

Figure 3. 30% budget reduction